

For Mr. Warner
Legation - Appro.

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Written Justification of BUDGET ESTIMATES

Suggestions for
improving editorial quality

*Management
Bulletin*

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**EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET**

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FOREWORD

This Management Bulletin has been prepared to help budget officers and operating officials in Federal agencies improve the editorial quality of written justifications of budget estimates and thereby facilitate their consideration by higher officials in the agencies, by the Bureau of the Budget, and by the appropriations committees of the Congress.

This Bulletin is based upon materials being used for interdepartmental training conferences on budget formulation under a program developed by departmental budget officers, the Bureau of the Budget, and the Civil Service Commission. The examples of justifications used in this Bulletin were taken from agency estimates for fiscal year 1948.

THE PURPOSE of Budget Justifications

A budget has been defined as a work plan with a dollar sign attached. Budget preparation involves the development and proposal of such a plan. In a large and complex organization such as the Government of the United States, most of the work of budget preparation rests with the operating units which will carry on the activities to be authorized and financed.

Even if they were completely self-sustaining and autonomous, these many operating units would undoubtedly engage in periodic planning and forecasting similar to that involved in annual budget preparation. However, their several programs and activities must be related to those of other Federal agencies, harmonized with the wishes of the Chief Executive, and authorized and financed by action of Congress. It is necessary, therefore,

to explain and justify budget estimates before central executive authorities and before the Legislative Branch in order to secure the legal authority and financial means to execute the work plans.

Written justifications are only one means by which budgetary proposals are presented. They accompany estimates of appropriations and supporting financial schedules which also are expressions of the agencies' work plans. The process of budget formulation also involves hearings at which estimates and proposals are explained and discussed. Written justifications, however, can generally put flesh on the bare bones of formal estimates and schedules; and they provide a means for more orderly presentation of information than usually is offered at budget hearings.

FORM AND ARRANGEMENT

The form and arrangement of a written justification are within the agency's discretion, since there are no generally applicable requirements aside from the "lead-off" statement prescribed by the Bureau of the Budget.¹ It is to the agency's own advantage to plan its presentation in a way which will facilitate either summary or intensive review. When the reviewer is thoroughly familiar with

the agency and its program, organization, and methods, and where the estimates involve few major changes from the past, *summary* examination may be practically all that is needed. Under other conditions, review of budget proposals will require *intensive* study. The agency can aid each type of review by clearly pointing up the major issues and by presenting the appropriate supporting data.

¹There are some agencies which do not have total discretion in this matter in that the appropriations subcommittees which pass on their budget estimates have laid down general requirements for written justifications.

Moreover, reviewers of the estimates in the agency, in the Bureau of the Budget, and in the appropriations committees of Congress, require different degrees of detail on different matters. At these successive stages, there is usually a differing proportion of concern with program issues, administrative assumptions and policies, work-load and cost elements. For this reason, the operating units must prepare successive versions of the written justification to meet the needs of the different stages of review. Complete rewriting or reorganization of the original justification can be obviated if its basic organization is one which is applicable for all levels of review, and if adequate summary information is included to which can be added the varying amounts of detailed data required by the successive reviewers.

The differing needs of summary and detailed review are also sometimes met by providing historical or background information through a standing budget digest ^{2/} or in a background statement attached to the annual submission. Either practice makes possible a briefer and more pointed current presentation which segregates repetitive information. Where a budget digest or separate background statement is used, the current presentation must be keyed to the background material by arrangement, headings, and cross-reference notes.

Basic Organization

The order in which various aspects of an estimate are discussed in a writ-

ten justification is inevitably related to the nature of the appropriation and the issues likely to be of special importance to the reviewers. Thus, the primary breakdown of a justification may result in major sections dealing successively with one of the following: ^{3/}

1. The several purposes or functions involved;
2. The several organization units to be financed;
3. The various object classes of expenditure;
4. "Base" amounts and changes from the base.

When one basis is used as the primary breakdown of a justification, at least one of the others should usually be used as a secondary breakdown within each section of text. Thus, where a justification is organized mainly in terms of functions, each function is likely to be discussed in terms of base amounts and changes and, perhaps, in terms of objects of expenditure.

Since any appropriation item is likely to involve changes in amount from one year to another, the desirability of justifying changes from base amounts will depend mainly upon the way in which the estimates are prepared—whether they are built primarily in terms of changes from the current or preceding years' amounts or are built from a "zero base," thus making past appropriations or expenditures merely comparative reference points. The decision will also depend upon the anticipated attitude of those reviewing the estimate—that is, whether they

² A budget digest is a permanent, loose-leaf set of reference volumes containing such information on the agency and on its individual appropriations as: History and development, citations of legal authority, major objectives, scope of activities, appropriations available, special uses authorized or limitations imposed on funds, project descriptions, organization charts, and other exhibit materials of an historical or static nature.

³ For appropriations involving only a single object (e.g., "Salaries"), the third type of breakdown will not, of course, occur. In other instances where an estimate is not organized to reflect costs by purpose or function, the first type of justification breakdown is not practicable.

will be interested primarily in the changes. The choice of other alternatives as the basis for arrangement of a written justification will be affected by the nature and itemization of the appropriations involved.

Where all or several appropriations of an agency are similar in their coverage (e.g., each one covering all expenses of a particular organization unit), it is desirable to establish a common pattern for arrangement of the corresponding written justifications. Where appropriations are itemized in a variety of ways, however, it may be necessary to develop for each major kind of appropriation item a distinct topical structure of written justification.

Other Points on Presentation

Aside from basic organization, there are several devices which may be employed to aid the reviewer in locating major facts and assumptions. The reviewer can then look behind only those statements which he has reason to question or about which he desires more detailed information.

AN INTRODUCTORY STATEMENT which summarizes the major facts about the estimate will promote an understanding of the over-all nature and significance of the work program covered by the estimate. Thus:

The introduction to the personal service estimate of the *Bureau of Old-Age and Survivors Insurance* contained:

- A. A statement that the justification represented an operation-by-operation and work-load-production-rate estimate of the personnel required;

- B. Five paragraphs stating the general assumptions and administrative policies reflected in the estimate; and
- C. An outline of the explanatory materials which were included to support the budget.

SECTION AND PARAGRAPH HEADINGS are useful devices for emphasizing important statements as well as for breaking the text at points where the subject matter changes. The value of section and paragraph headings is enhanced if the same or a very similar pattern is followed for different estimates of the same agency and if the heading pattern can be carried over from year to year. Thus:

The *Department of State* has used the following headings in the justification text relating to the personal service needs of each major area of organization:

- A. Objective (major purpose or purposes);
- B. Accomplishments during fiscal year 1946;
- C. Major current and anticipated problems;
- D. Program for accomplishing objective and solving major problems in fiscal years 1947 and 1948 (includes statements or assumptions on which program plans were based):
 - 1. Continuing programs;
 - 2. Programs to be discontinued in 1948;
 - 3. New programs to be started in 1948, and
- E. Volume of Work (statements on past, current, and anticipated work-load and its relation to the number of employees requested.)

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In a section entitled "Increases and Decreases," the *Department of Agriculture* has discussed each increase under the headings:

- A. Objective;
- B. The Problem;
- C. Significance;
- D. Plan of Work;
- E. Revenues (where applicable); and
- F. Financial Requirements.

A STATEMENT OF CONCLUSIONS OR EFFECTS AHEAD OF A DETAILED DESCRIPTION of the reasoning or computations involved will enable the reviewer to confine his attention to material pertinent to his review. Thus:

In an estimate relating to a public assistance program, the first sentence regarding the future scale

of the program states: "It is estimated that the average number of recipients in 1948 will be 2,320,000, about 8 percent more than that estimated for the preceding fiscal year." Thereafter are presented figures as to recent trends and the basic reasons and assumptions for the stated estimate.

In sharp contrast is another agency's forecast of an increase in institutional population, which begins: "All factors affecting.... population point to an increase beginning in October 1946 and extending through 1948." Three and a half pages of discussion separate that statement from the conclusion, "Accordingly, we are submitting an estimate based on an average population of"

TESTING CONTENT

Careful preparation of a budget estimate will not assure its approval: the estimate must be explained and defended. On the other hand, a written justification can be no better—if it is an honest presentation—than the budget estimate. The questions sometimes used to test a written *justification*—in terms of its treatment of significant budgetary issues—actually apply more truly to the building of the *estimate* which it supports. The appropriate test of a justification is: "Does it honestly and effectively explain the estimate and the judgments entering into its preparation?"

Such a test of a proposed justification suggests these questions: Is the justification complete? Is it in proportion? Is it explicit? Is it brief?

Completeness

Building an annual budget estimate involves estimating the future cost of, and means of financing, the work programs of the agency. Although a written justification cannot cover all considerations or explain all methods used in preparing the estimate, it should provide information on *all major* issues and elements involved.

Questions regarding a budget proposal may involve issues of program, administration, cost computation, and means of financing (including appropriation structure). Some of the specific questions which may arise with respect to those issues, as evidenced by reports of Congressional committees on appropriations, are set forth in the Appendix to this Bulletin.

Proportion

The amount and kind of administrative discretion which can be exercised in the preparation of a budget estimate vary widely among different agencies and programs. In some instances, there is a considerable range of choice on issues of program, administration, cost computation, or methods of financing; in other programs, the answers to many such issues are given by sub-

stantive law or the very nature of the case. The degree to which specific points should be emphasized in justifications will, therefore, depend primarily on the answers to two questions: "What decisions or assumptions have been of greatest importance in preparing the budget estimate?" and "Which of those decisions or assumptions are likely to be of greatest concern to those reviewing the estimate?"

The result of considering these two questions may be briefly illustrated in terms of contrasting situations.

Where an estimate relates to a program *specifically* authorized by law, the justification may merely refer briefly to the statutory provision involved. Thus:

"These estimates are to carry out the functions and responsibilities of the *Weather Bureau* as set forth in its organic Act of 1890 and the Civil Aeronautics Act of 1938. These statutes, and Executive orders relating thereto, direct the Bureau to maintain nation-wide meteorological and climatological services. These services have been regular and essential government functions for many years; a few

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are new requirements that have arisen from increase in air transport traffic, or from international aviation agreements under the State Department "

However, if a presumption of authority for an entire program or any major changes in a present program has been based merely upon *general* legislation (and especially if any question of authorization has previously been raised) the justification may well explain the reasoning and evidence behind the presumption of legal authority.

Where a particular estimate relates to a compact or simple organization for which no structural change is reflected in the estimate, the written justification may merely summarize its nature in relation to the work being done. However, if organization is a major issue—for example, the relative number and size of central and regional or field units—or if the budget is based on proposals for significant organizational change, the nature of the agency structure and distribution of work are likely to require more complete explanation in the justification. Thus:

The *Office of Education* prepared a progressive reorganization plan to be completed in three years. No new functions were to be added, but realignment of the functional organization and expansion of personnel were the aims. The plan was of a scale and significance that required prior approval. To support its proposals, the Office included in its budget justification three organization charts which pictured the issues:

1. The realignment of existing functions into a smaller number of operating divisions;

2. The steps by which specific positions would be added; and
3. The proportion of expansion (personnel) in the various organization units for each year, as well as total agency expansion.

Again, where forecasts of price levels or indices for particular goods or services have been important elements in preparing an estimate—as, for example, in the case of a public works program—the assumptions and methods used in computing costs will require more emphasis than if prices or rates are minor issues in budget preparation. Thus:

On the basis of the commodity index of prices, the *Public Buildings Administration* calculated an increase of 16 percent in the cost of operation, maintenance, and repair of buildings as follows: "... The Bureau of Labor Statistics in its commodity index of wholesale prices shows an increase of 15% during the period June 1944 to August 1946 for building materials and a 17% increase for bituminous fuel. These items comprise the major portion of expenditures for supplies and materials. The June 1944 prices have been used as the base in estimating the increased requirements."

Explicitness

A budget is seldom executed exactly as originally planned because it is seldom possible to predict correctly all of the conditions which will exist during the period of execution. The fact that a budget estimate is based on a forecast and not a prophecy of future conditions does not, however, remove the necessity of justifying the estimate in definite and unambiguous terms.

Explicitness is of value to those who prepare a budget estimate, as well as to those who review it. A reviewing authority who changes an estimate is more likely to explain his change if the justification has dealt clearly with each major proposal and the assumptions upon which the proposal was based. Armed with an understanding of the purposes or reasons for the changes, the operating unit is better able to justify the revised estimate at a later review and to execute the budget as approved.

The explicitness of a written justification may often be tested by analyzing the style of presentation

employed. Rambling, general statements, broken by few headings, will not pass such a test. Evidence of explicitness includes, in addition to a well-organized text, the presentation of facts and forecasts in quantitative terms wherever possible and the use of tabular or graphic data in place of narrative descriptions. In juxtaposition on the next two pages are (1) paragraphs taken from a justification concerning institutional management, the meaning of which is obscured because figures which should have been tabulated are buried in textual material, and (2) the same data presented in tabular form, with conclusions stated first instead of last.

Presentation of Figures in Narrative

Meaning is often obscured in textual material containing figures which should have been tabulated. The following paragraphs were taken from an estimate concerning institutional management:

The latest available figures published by the Department of Labor, Bureau of Labor Statistics, indicate an overall commodity price increase of approximately 22% at August 17, 1946, as compared with August 17, 1945. That report indicated an advance of 40% for foods, 28.6% in farm products, approximately 16% in textile products, 13% in fuel and lighting materials, 12.6% in building materials, 20.4% in manufactured products, and approximately 7% in miscellaneous commodities. In arriving at the per capita amount required for "Care of Inmates" in fiscal year 1948, we have observed in the instructions in the call for estimates that the 1948 estimates be based on prices in effect September 1, 1946, except to the extent that it was necessary to use the August 17, 1946 figures, since the September 1, 1946 figures were unavailable at the time of preparation of estimates. The increases in commodity prices as indicated by the Department of Labor, were applied to the types and percentages of the various commodities used in connection with "Care of Inmates" classification of expenses; for example, expenditures approximate 51% for food, 17.4% for clothing, 13% for farming operations, and 18.6% for all other items. The application of the percentages of increases in commodity prices to the percentages of actual utilization amount in the overall aggregate to \$812,490, representing an increase in the per capita rate from 56.1¢ per man per day, as appropriated for 1947, to an estimated per capita rate of 72¢ for fiscal year 1948.

The item "Care of Inmates" in 1948, therefore, is computed on the basis of an estimated average population of 14,000 inmates at a daily per capita cost of 72¢, a total of \$3,689,280, which is \$822,570 more than provided in the 1947 appropriation. Of that amount, \$812,490 is due to commodity price increases and \$10,080 for the one additional day in 1948, which is a leap year.

and in Tabular Form

A less confusing explanation than that on the opposite page could have been given by the following type of presentation:

The item "Care of Inmates" in 1948 is estimated at \$3,689,280. This is computed on an average population of 14,000 (the same as for 1947) at a daily per capita cost of 72¢. The increase over the 1947 appropriation is due to:

Increases in commodity prices	\$812,490
Additional day in 1948 (leap year)	10,080
Total increase over 1947 appropriation	\$822,570

The daily per capita cost reflected in the 1947 appropriation is 56.1¢. For 1948 it is estimated to be 72¢, made up as follows:

COMMODITY	AVERAGE DAILY PER CAPITA COST IN 1947 (CENTS)	INCREASE IN 1948 OVER 1947 (CENTS)	ESTIMATED AVERAGE DAILY PER CAPITA COST IN 1948 (CENTS)
Food	28.6	11.4	40.0
Clothing	9.8	1.8	11.6
Farm Operations	7.3	1.1	8.4
All Other	10.4	1.6	12.0
TOTAL	56.1	15.9	72.0

The estimates of increase in the four commodity groups are based upon the commodity price index data of the Bureau of Labor Statistics, as follows:

B. L. S. COMMODITY GROUP	PERCENTAGE INCREASE 8/17/45-- 8/17/46 *	EST. PERCENTAGE INCREASE APPLIED TO OUR COST COMPONENTS	OUR COST COMPONENTS
Food	40.0	40.0	Food
Textile Products	16.0)	18.2	Clothing
Mfgd. Products	20.4)		
Farm Products	28.6)		
Fuel & Ltg. Mater.	13.0)	15.3	(Farm Operations
Building Materials	12.6)		(All Other
Miscellaneous	7.0)		

* September 1, 1946 prices were not available at the time the estimate was prepared.

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Brevity

It is a well known adage of merchandising that the effective salesman knows when to stop talking. The same principle applies to the justification of budget estimates, perhaps with increasing force as proposals are considered successively at the depart-

mental level, by the Bureau of the Budget, and by Congressional committees on appropriations. At each stage, many different estimates must be reviewed, with each usually involving several important issues. There is thus a real pressure upon those preparing a justification to get the relevant facts into the record as briefly as possible.

CONSIDERATIONS INVOLVED

APPENDIX

In Review of Budget Proposals

Even with the best possible job of budget preparation and presentation, original proposals may be modified by those who review and act upon them. A primary aim of good budgeting is to limit such changes to those which arise from differences of perspective, objective or judgment and to avoid decisions which result from incomplete understanding of the proposals which are being submitted.

Reports by the House and Senate committees on appropriations upon

appropriation bills of the past two years reflect a variety of reasons for departures from executive budget proposals. Some such reasons appear below, in terms of classified questions which may be useful in the preparation and review of written budget justifications. It is unlikely that any one budget proposal will need to anticipate even a majority of the questions listed — only those which are especially pertinent to the agency's program should be covered.

Program Plans

A. Need and Desirability

1. Is the program needed? Are the objectives worthwhile?
2. Do accomplishments in the past justify continuing the program?

B. Responsibility

1. Is the task one for the Federal Government rather than private enterprise or state and local governments?
2. If other governments or private enterprise are concerned with the program, is the division of responsibility appropriate?
3. Is this program an appropriate one for the agency?

C. Scope and Basic Approach

1. Are the proposed activities confined to approved objectives?
2. Is the proposed approach a sound method of attaining the proposed objectives?

D. Scale and Timing

1. Is the forecast of demand for services dependable?
2. Is this an appropriate time to carry on the work proposed in the volume proposed?
3. Will personnel be available in the immediate future to carry on the full program as proposed?

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E. Propriety

1. Is there proper legislative authority for the program?
2. Is the proposed program with-

in the terms of legislative authority?

3. Is the budget request being presented for consideration of the proper Congressional committee and subcommittee?

Administrative Plans

A. Organization and Work Distribution

1. Are the proposed organization and distribution of work practical and efficient?
2. Are the proposed field offices required in order to serve the public?
3. Has duplication of work between organization units been avoided?

D. Need for Various Services and for Equipment and Facilities

1. Is there proposed an economical use of travel, communication, and other contractual services?
2. Is new equipment necessary at this time?
3. Is it necessary to enlarge or replace existing facilities at this time?

B. Working Methods and Procedures

1. Are the procedures simple, efficient, and economical?
2. As between alternative methods of performing the work, have the most economical methods been chosen?

E. Overhead Expenses

1. Is the proposed cost of executive direction and supervision fully justified?
2. Is the proposed cost of auxiliary services appropriate?
3. Are administrative expenses reasonable in relation to program expenses?

C. Relation of Requirements to Scale of Program

1. Are the workload estimates dependable?
2. Is the number of personnel proposed consistent with the amounts of work to be done?
3. Do nonpersonnel requirements properly provide for the volume of work to be carried on?

F. Grade and Quality of Administrative Requirements

1. Is a sound grade-distribution of employees proposed?

Are the specifications for particular supplies or equipment as economical as they should be?

Cost Computations

A. Obligations for Personal Services

1. Has a proper allowance been made for savings which will accrue because of delay in replacing separated employees?
2. Has adequate account been taken of savings which will accrue because of delays in filling new positions?
3. Are the estimates based upon suitable salary or wage scales?
4. Has sufficient money been included to cover the costs of salary adjustments, overtime, and terminal leave?

B. Obligations for Nonpersonnel Requirements

1. Has proper account been taken of possible changes in price levels? The question of price levels is particularly important where supplies and materials account for a substantial portion of the costs, as in institutional care or public works programs.
2. Are the estimates based upon reasonable forecasts of rates for special services contracted by the Government?

C. Estimates in Total

1. Are the estimates properly "rounded"?

Appropriation Structure

A. The Itemization of Appropriations

1. Should two or more appropriation titles be merged?
2. Should a wholly new appropriation item be set up where several appropriations are now being used in part for a similar purpose?
3. Should any appropriation item, formerly treated as one fund, be broken down into two or more items?
4. Should any cost previously carried under one account be

provided for in a different account?

5. What authority should be granted for interchange of items?

B. The Nature of Appropriations

1. Should appropriations be specific or indefinite in amount?
2. How long should sums appropriated remain available for obligation? NOTE that the Legislative Reorganization Act of 1946 (Public Law 601, 79th Cong., 2d Session) contains the

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following prohibition: "No general appropriation bill or amendment thereto shall be received or considered in either House if it contains a provision reappropriating unexpended balances of appropriations; except that this provision shall not apply to appropriations in continuation of appropriations for public works on which work has commenced." (Sec. 139 (c))

C. The Use of Substitutes in Place of Direct, New Appropriations

1. Should some of the required moneys be obtained through re-

imbursements or advances from other Government agencies?

2. What balances of previous appropriations for the same purpose will be available or should be made available? (See Sec. 139 (c) of Public Law 601, supra).
3. Should money appropriated for some other purpose be made available for this purpose by reappropriation and transfer? (See Sec. 139 (c) of Public Law 601, supra).
4. Should collections from outside sources be automatically available for use by the agency?

Other BUREAU OF THE BUDGET Management Bulletins

AN AGENCY MANAGEMENT PROGRAM, March 1944 - A guide for appraising management effectiveness.

FISCAL RECORDS AND CONTROLS, January 1945 - A check list for periodic evaluation of fiscal activities.

PERSONNEL RECORDS AND CONTROLS, January 1945 - A check list for periodic evaluation of personnel records.

PROPERTY RECORDS AND CONTROLS, January 1945 - A check list for periodic evaluation of property disposal activities.

RECORDS RETIREMENT AND CONTROLS, January 1945 - A check list for periodic evaluation of records disposal activities.

AGENCY LIQUIDATION OR REDUCTION, July 1945 - A procedural guide on organizing and planning for liquidation or reduction of agencies and programs.

ESTIMATING RECEIPTS AND EXPENDITURES, October 1945 - For use of Budget Officers in preparing estimates of expenditures and miscellaneous receipts.

PROCESS CHARTING, November 1945 - Process charting as a practical working device in attacking management problems.

CHECKING BUDGET SCHEDULES, Revised, July 1946 - A guide for review of green sheets.

Copies of the above bulletins may be obtained from the Publications Unit of the Bureau of the Budget, (Executive Office of the President, extension-6)

TELEPHONE SERVICE, April 1947 - Basic Elements of Necessity and Use.

This bulletin is available at the office of the Superintendent of Documents

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